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# **Financial Management Assurance & OMB Circular A-123**

## **Integration with Contractor Assurance at Fermilab**

*OMB Circular A-123:  
Management's Responsibility for  
Internal Control*

*Appendix A (Internal Control over Financial Reporting)*

# Financial Management Assurance (FMA)

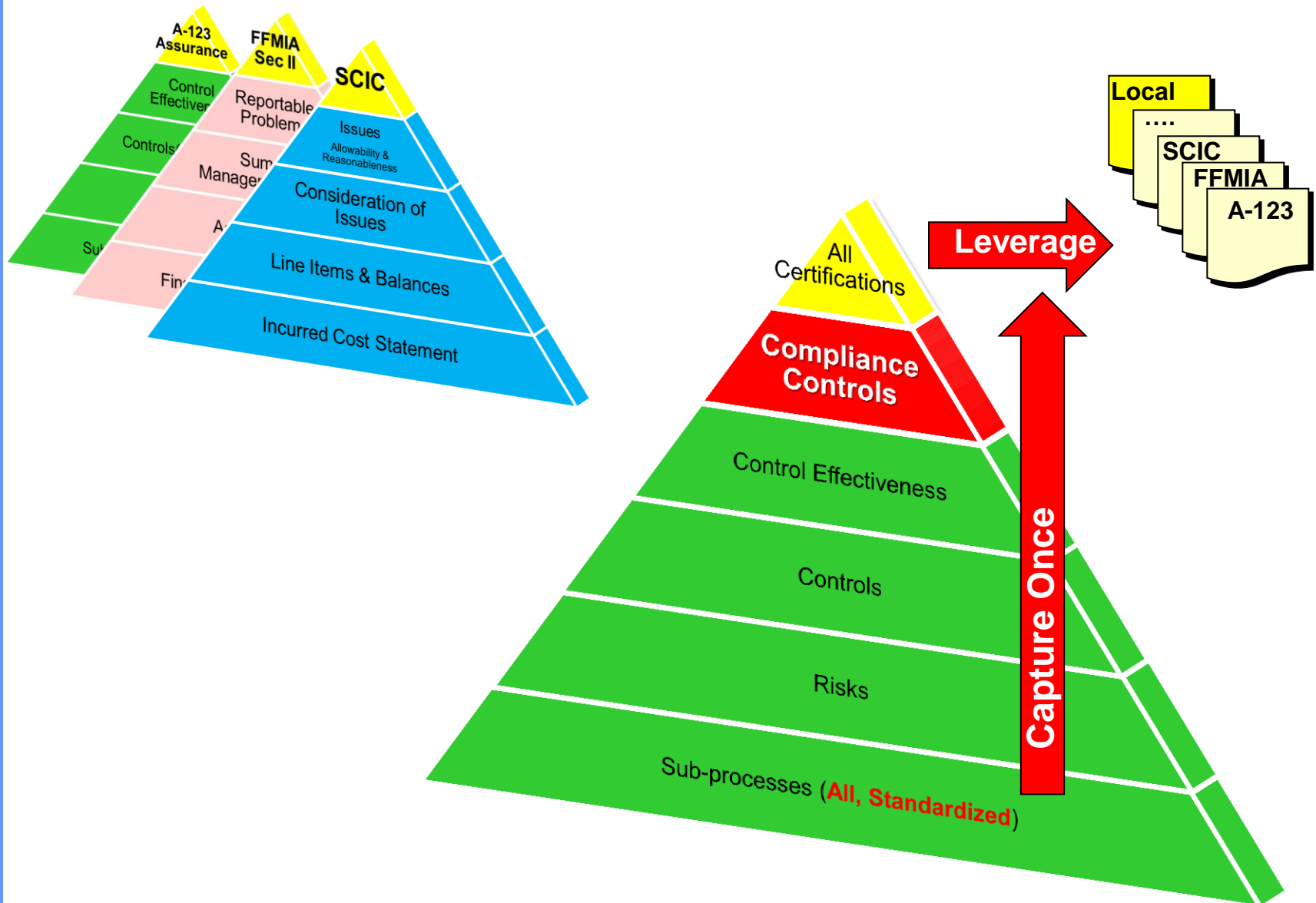


- DOE's program to create one tool through which the agency and contractors will document support for required certifications
  - A-123, Appendix A - Controls over Financial Reporting (agency certification to OMB)
  - FMFIA (Federal Managers Financial Integrity Act) (Annual Assurance Memo)
  - Statement of Costs Incurred and Claimed Certification (CFO cert)
- Two assessments for contractors
  - Process controls (A-123)
  - Entity controls (FMFIA / Assurance Memo)

↑  
Focus today



# Build on A-123, Evolve to a Common Approach



# Fermilab FMA Assessment Status

as of May 31, 2011:



FMA consists of Entity Assessment and A-123 Assessment

A-123 is the backbone of the Finance Management System.

It is process-based:

- Identify & evaluate risks (prescribed and local)
- Identify key controls
- Test controls based on assessed risk

Entity Controls Assessment now forms the basis for the Annual Director's Assurance to DOE under FMFIA.

Process Cycle	Process	# of Sub-Processes	# of Risks	# of Key Controls	Number of Outstanding CAPs	New Risks
B2C - Budget to Close	General Ledger Management	7	13	24	0	0
	Funds Management	3	0	0	0	10
	Fund Balance With Treasury	1	1	1	0	0
	Cost Management	5	12	32	0	0
	<b>Total by Process Cycle:</b>	<b>16</b>	<b>26</b>	<b>57</b>	<b>0</b>	<b>10</b>
P2P - Procure to Pay	Acquisition Management	5	23	51	0	8
	Inventory Management	3	4	7	0	0
	Payables Management	4	15	25	0	10
	Travel Administration	3	8	7	0	3
	<b>Total by Process Cycle:</b>	<b>15</b>	<b>50</b>	<b>90</b>	<b>0</b>	<b>21</b>
P2A - Project to Asset	Project Cost Management	4	11	15	0	4
	Property Management	3	10	43	0	0
	<b>Total by Process Cycle:</b>	<b>7</b>	<b>21</b>	<b>58</b>	<b>0</b>	<b>4</b>
ERM - Enterprise Resource Mgt	Payroll Administration	5	15	60	0	1
	Benefits Administration	2	10	14	0	0
	<b>Total by Process Cycle:</b>	<b>7</b>	<b>25</b>	<b>74</b>	<b>0</b>	<b>1</b>
SPC - Special Purpose Cycle	Environmental Liabilities	4	11	11	0	0
	ES&H Liabilities	1	1	5	0	0
	Other Management Estimates	1	1	4	0	0
	Information Technology Security	1	6	6	0	0
	Improper Payments	1	1	2	0	0
	<b>Total by Process Cycle:</b>	<b>8</b>	<b>20</b>	<b>28</b>	<b>0</b>	<b>0</b>
<b>Total A-123:</b>		<b>53</b>	<b>142</b>	<b>307</b>	<b>0</b>	<b>36</b>
<b>Entity Controls in Entity Assessment Tool</b>						
	Control Environment	8	28	TBD	0	
	Risk Assessment	8	37	TBD	0	
	Control Activities	15	31	TBD	0	
	Information/Communication	3	3	TBD	0	
	Monitor Performance	3	12	TBD	0	
		<b>37</b>	<b>111</b>			
<b>Grand Total:</b>		<b>90</b>	<b>253</b>	<b>307</b>	<b>0</b>	

# Examples of Entity Controls in FMA



Area Ref	Focus Area	Entity Control Area	Entity Control Sub-Category	Control Objective / Considerations
1.1	S	Control Environment	Integrity and Ethical Values	1 ) Management has identified those activity-level objectives that are critical to the success of the overall entity-wide objectives; 2) An ethical tone has been established at the top of the organization and has been communicated throughout the agency; 3) Dealings with the public, Congress, employees, suppliers, auditors, and others are conducted on a high ethical plane; 4) Appropriate disciplinary action is taken in response to departures from approved policies and procedures or violations of the code of conduct; 5) Management appropriately addresses intervention or overriding internal control; and 6) Management removes temptation for unethical behavior.
1.3	S	Control Environment	Commitment to Competence	1) The agency provides training and counseling in order to help employees maintain and improve their competence for their jobs. 2) Key senior-level employees have a demonstrated ability in general management and extensive practical experience in operating governmental or business entities.
2.4	Y	Risk Assessment	Systems & IT Posture	The organization has considered the following: 1) Availability of systems to meet mission needs; 2) State of Systems/IT infrastructure; 3) system integration issues; 4) Security and disaster recovery issues/status; 5) Integration of systems plans; and 6) Decommissioning/replacement of aging systems; etc.
3.3	Y	Control Activities	Planning, Programming, Budgeting and Evaluation	1) The organization considers mission critical unfunded requirements/mandates; 2) The organization has the ability to deliver a balanced budget within target; and 3) A process for remedying CR continuity issues is in place, etc.
4.2	S	Information/Communication	Communications	1) Management ensures processes are in place for effective internal and external communication.
5.2	S	Monitor Performance	Separate evaluations	1) The scope and frequency of separate evaluations of internal control are appropriate for the agency; and 2) The methodology for evaluating the agency's internal control is logical and appropriate.

# Integration with Contractor Assurance



- Entity Controls Evaluation = DOE-required assessment to ensure the Annual Assurance Memo is accurate and adequately supported.
- Contractor Assurance System – includes objective to ensure that Annual Assurance Memo is accurate and adequately supported.
- Therefore, Entity Controls Evaluation should be incorporated into Contractor Assurance System.
- Proposal – Each Entity Control Objective will be assigned to one or more Management Systems; MS Owners will be responsible for evaluating that control objective and documenting for FMA.

# Sample MSO Assignments



Area Ref	Focus Area	Entity Control Area	Entity Control Sub-Category	Control Objective / Considerations	Management System Assignment
1.1	S	Control Environment	Integrity and Ethical Values	1 ) Management has identified those activity-level objectives that are critical to the success of the overall entity-wide objectives; 2) An ethical tone has been established at the top of the organization and has been communicated throughout the agency; 3) Dealings with the public, Congress, employees, suppliers, auditors, and others are conducted on a high ethical plane; 4) Appropriate disciplinary action is taken in response to departures from approved policies and procedures or violations of the code of conduct; 5) Management appropriately addresses intervention or overriding internal control; and 6) Management removes temptation for unethical behavior.	Corporate Governance
1.3	S	Control Environment	Commitment to Competence	1) The agency provides training and counseling in order to help employees maintain and improve their competence for their jobs. 2) Key senior-level employees have a demonstrated ability in general management and extensive practical experience in operating governmental or business entities.	Business Ops/WDRS
2.4	Y	Risk Assessment	Systems & IT Posture	The organization has considered the following: 1) Availability of systems to meet mission needs; 2) State of Systems/IT infrastructure; 3) system integration issues; 4) Security and disaster recovery issues/status; 5) Integration of systems plans; and 6) Decommissioning/replacement of aging systems; etc.	Information Technology
3.3	Y	Control Activities	Planning, Programming, Budgeting and Evaluation	1) The organization considers mission critical unfunded requirements/mandates; 2) The organization has the ability to deliver a balanced budget within target; and 3) A process for remedying CR continuity issues is in place, etc.	Performance Planning Finance/Budget
4.2	S	Information/Communication	Communications	1) Management ensures processes are in place for effective internal and external communication.	Communication
5.2	S	Monitor Performance	Separate evaluations	1) The scope and frequency of separate evaluations of internal control are appropriate for the agency; and 2) The methodology for evaluating the agency's internal control is logical and appropriate.	Corporate Governance Finance

# Entity Evaluation Guidance



- c) Document the “Basis of Evaluation” for each area in the EAT. The Basis of Evaluation represents the key information and/or activities leveraged/performed to provide reliable support for assurances that the control objectives and considerations have been addressed. (Note: The Basis of Evaluation must be a tangible and documented activity to be valid – e.g., safety managers’ reports, annual infrastructure reports, bi-annual workforce planning survey results, etc.) As this is the most critical part of the assessment, training will be provided to focus heavily on acceptable standards to ensure consistent quality in all evaluations.

The above is an excerpt from DOE’s 2011 Entity Assessment Guidance. The referenced training is to be provided later this week.

Next, identify any issues and rate them:

- Immediate significant
- Potential significant
- Non-significant

Evaluate impact and develop Corrective Action Plan for any significant issues identified.



# Due Dates and Proposed Next Steps



- The Entity Controls Assessment must be completed before the Annual Assurance Memo is prepared.
- Annual Assurance Memo is typically due ~ August 8<sup>th</sup>
- Finance will:
  - Make preliminary assignments to MSO's and send via email this week
  - Provide prior year controls where applicable to current control objectives/risks

Process Cycle	Process	# of Sub-Processes	# of Risks	# of Key Controls
Entity Controls in Entity Assessment Tool				
	Control Environment	8	28	TBD
	Risk Assessment	8	37	TBD
	Control Activities	15	31	TBD
	Information/Communication	3	3	TBD
	Monitor Performance	3	12	TBD
		37	111	

# Due Dates and Proposed Next Steps (cont.)



- MSOs will review proposed assignments and provide feedback to CFO within one week
- Finance will hold training meeting with MSO's (or designees) once DOE training is completed and understood.
- MSOs (or designees) will evaluate assigned control objectives by a due date TBD.